

## Message Text

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PAGE 01 JAKART 07287 021034Z  
ACTION COME-00

INFO OCT-01 EA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05 L-03  
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-----047953 030713Z /16

R 020905Z JUN 78  
FM AMEMBASSY JAKARTA  
TO SECSTATE WASHDC 9174  
INFO AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 7287

FOR MARAD WASHINGTON, D.C./PROSS,  
DIRECTOR OF SHIPBUILDING COSTS

E.O. 11652: GDS  
TAGS: ENRG, JA, ID  
SUBJECT: INDONESIAN SALES OF LNG TO JAPAN

REF: MARAD WA-78-0358

1. PERTAMINA IS DISCUSSING WITH JAPANESE UTILITIES POSSIBLE  
NEW CONTRACTS FOR SALES OF ADDITIONAL LNG FROM BADAQ TRAINS  
3 AND 4 TO JAPAN. MITI MINISTER KOMOTO'S MAY VISIT TO  
JAKARTA APPARENTLY PROVIDED MOMENTUM TO THESE DISCUSSIONS, AND  
HIS REMAKRS SQUARELY PLACE JAPANESE GOVERNMENT IN FAVOR OF  
CONTRACTS. KOMOTO DID NOT SAY WHAT ACTIONS, IF ANY, GOJ  
WOULD UNDERTAKE BUT INDONESIAN SOURCES SAY IT IS POSSIBLE  
GOJ MAY PARTICIPATE IN FINANCING OF THE LNG EXPANSION.

2. PAST DISCUSSIONS ON LNG EXPANSION HAVE FALTERED ON  
QUESTION OF WHETHER BADAQ GAS RESERVES ARE SUFFICIENT TO  
SUPPORT THE SUPPLIER'S COMMITMENT TO DELIVER LNG OVER LIFE  
OF CONTRACTS. JAPANESE HAVE HAD TECHNICAL TEAM HERE TO  
CONSULT WITH PERTAMINA AND HUFFCO AND GATHER INFORMATION  
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PAGE 02 JAKART 07287 021034Z

FOR ANALYSIS IN JAPAN.

3. PERTAMINA BELIEVES BADAQ RESERVES ARE SUFFICIENT,  
BUT UNCERTAINTY SURROUNDING RESERVE FIGURES HAVE LED  
PERTAMINA TO TRY AND UTILIZE ASSOCIATED GAS CURRENTLY  
BEING FLARED AT UNION AND TOTAL OIL FIELDS FOR THE  
BONTANG LNG PLANT. THIS ASSCIATED GAS WOULD ADD ABOUT

1 TRILLION STANDARD CUBIC FEET IN RESERVES, ALL ON THE FRONT END SINCE THESE OIL FIELDS MAY PLAY OUT WITHIN 7 YEARS OR SO.

4. UTILIZATION OF THIS ASSOCIATED GAS REQUIRES NEW PIPE-LINE CONSTRUCTION, ETC., BUT MORE IMPORTANTLY, AN ACCEPTABLE COMPENSATION ARRANGEMENT MUST BE REACHED AMONG UNION, TOTAL, HUFFCO AND PERTAMINA. THE PROCESS OF REACHING THIS ARRANGEMENT COULD COMPLICATE, IF NOT DELAY, FINAL AGREEMENT ON LNG EXPANSION. HUFFCO IS ESPECIALLY CONCERNED THAT TOTAL AND UNION MAY RECEIVE FIRST PAYMENT FOR THEIR GAS WHILE HUFFCO, WHICH IS DEVELOPING THE BADAK FIELD, WILL HAVE TO WAIT. HUFFCO IS TRYING TO CONVINCE THE OTHERS TO ADOPT A "GAS BANK" CONCEPT THAT WOULD PERMIT HUFFCO TO RECOVER ITS INVESTMENT MORE QUICKLY AND DELAY PAYMENTS TO UNION AND TOTAL.

5. PERTAMINA PRESIDENT HARYONO WAS IN TOKYO IN MAY TO DISCUSS RESERVE QUESTION WITH POTENTIAL JAPANESE BUYERS. THEY APPARENTLY AGREED THAT FINAL CERTIFICATION OF RESERVES WOULD BE DONE IN SEPTEMBER, 1978. BOTH SIDES REPORTEDLY BELIEVE THAT AT MAXIMUM BADAK IS ONLY 700 MILLION CUBIC FEET SHORT OF MEETING POTENTIAL CONTRACTUAL REQUIREMENTS AND THAT ADDITION OF UNION AND TOTAL ASSOCIATED GAS WOULD ADEQUATELY COVER THAT POSSIBLE DEFICIENCY.

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PAGE 03 JAKART 07287 021034Z

6. TWO ADDITIONAL TRAINS (3 AND 4) WOULD DOUBLE CURRENT BONTANG CAPACITY OF INLET VOLUME OF ABOUT 530 MILLION STANDARD CUBIC FEET PER DAY. WHEN COMPLETED, 4 TRAINS WOULD DOUBLE DELIVERIES TO JAPANESE MARKET FROM 3.2 MILLION TONS PER YEAR TO 6.4 MILLION TONS PER YEAR.

7. FINANCING HAS NOT YET BEEN ARRANGED, BUT THE PRESUMPTION IS THAT JAPANESE WILL DO THIS. CONSTRUCTION OF THE ADDITIONAL TRAINS WOULD BEGIN AS SOON AS POSSIBLE AFTER FINANCING IS COMPLETE, WHICH COULD BE IN EARLY 1979. BECHTEL BUILT THE FIRST TWO TRAINS, BUT MAY NOT BE IN LINE FOR THE EXPANSION. IT IS PROBABLE NEW CONTRACTOR FOR PROJECT WILL BE CHOSEN BY BIDS. IF ALL GOES WELL, TRAINS 3 AND 4 COULD BE SHIPPING LNG TO JAPAN IN EARLY 1982.

8. ON SHIPPING QUESTION, WE UNDERSTAND THAT INDONESIA PLANS TO SELL THIS ADDITIONAL LNG ON FOB BASIS, AND THERE IS STRONG PRESUMPTION HERE THAT AS PART OF OVERALL DEAL THE NEEDED LNG CARRIERS WOULD BE CONSTRUCTED IN JAPAN AND PROBABLY OPERATED BY JAPANESE FIRM.

9. LETTER OF INTENT IS FIRMLY EXPECTED ABOUT JUNE 10.  
HOWEVER, WE CAUTION THAT A COMMERCIAL DEAL OF THIS MAG-  
NITUDE IS SUBJECT TO MANY UNCERTAINTIES, AND THERE WILL  
STILL BE A NUMBER OF COMPLEX NEGOTIATIONS TO BE SUCCESS-  
FULLY CONCLUDED BEFORE THE CONTRACTS ARE FINALIZED.  
NOETHELESS, PERTAMINA AND HUFFCO ARE CONFIDENT THAT ALL  
SIGNALS ARE GO.  
MASTERS

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## Message Attributes

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